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Canada's New Government Announces 2007 Automobile Deduction Limits and Expense Benefit Rates for Business

The Honourable Jim Flaherty, Minister of Finance, announced today the automobile expense deduction limits and the prescribed rates for the automobile operating expense benefit that will apply in 2007. Specifically:

- The ceiling on the capital cost of passenger vehicles for capital cost allowance (CCA) purposes will remain at $30,000 (plus applicable federal and provincial sales taxes) for purchases after 2006. This ceiling restricts the cost of a vehicle on which CCA may be claimed for business purposes.

- The limit on deductible leasing costs will remain at $800 per month (plus applicable federal and provincial sales taxes) for leases entered into after 2006. This limit ensures that the level of deductions for leased and purchased vehicles is consistent. In addition, there is a second restriction on the deduction of automobile lease payments which ensures that lease costs relating to the portion of the price of the vehicle that is in excess of the capital cost ceiling are not deductible.

- The maximum allowable interest deduction for amounts borrowed to purchase an automobile will remain at $300 per month for loans related to vehicles acquired after 2006. This limit reflects the reasonable cost of financing a vehicle for business purposes.

- The limit on the deduction of tax-exempt allowances paid by employers to employees using their personal vehicle for business purposes for 2007 will remain at 50 cents per kilometre for the first 5,000 kilometres driven and 44 cents for each additional kilometre. For the Yukon Territory, Northwest Territories and Nunavut, the tax-exempt allowance will remain at 54 cents for the first 5,000 kilometres driven and 48 cents for each additional kilometre. The allowance amounts reflect the key cost components of owning and operating an automobile, such as depreciation, financing, insurance, maintenance and fuel costs.

- The general prescribed rate used to determine the taxable benefit relating to the personal portion of automobile operating expenses paid by employers for 2007 will remain at 22 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will remain at 19 cents per kilometre. The amount of the benefit reflects the costs of operating an automobile. The additional benefit of having an employer-provided vehicle available for personal

use (i.e., the automobile standby charge) is calculated separately and is also included in the employee's income.

The Government reviews these rates and limits annually, and announces any planned changes prior to the end of the calendar year. This practice ensures that businesses are aware of the new rates before the beginning of the year in which they apply.

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